

“BRAC Bank SME Financing: A new ERA of Bankina.”



Date: September 18, 2011



Internship Report

On

“BRAC Bank SME Financing: A new ERA of Banking.”

This report is submitted for the partial fulfillment of the degree of Bachelor of business administration with a major in Accounting.

Supervised by:

Syeda Shaharbanu Shahbazi

Senior Lecturer

BRAC Business School

Prepared by:

Suranjan Chandra Dey

ID: 08204045

BRAC Business School

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Letter of Transmittal

September, 18, 2011

Syeda Shaharbanu Shahbazi

Senior Lecturer

BRAC Business School

Subject: Submission of the Internship report.

Dear Sir,

I would like to thank you for assigning me this subject to prepare the internship report. This task has been given me the opportunity to explore one of the most important aspects of the BRAC Bank SME loan.

The report contains a comprehensive study on **“BRAC Bank SME Financing: A new ERA of Banking.”**. With your kind supervision I tried my level best to make this report worthy.

I would be very happy to provide you with any clarification regarding the report. Please let me know if you have any inquiries. Would you kindly accept the report and oblige me thereby.

Sincerely yours

Suranjan Chandra Dey

ID: 08204045

BRAC Business School

ACKNOWLEDGEMENT



I am greatly indebted to my honorable supervisor Syeda Shaharbanu Shahbazi, who has supervised, instructed & directed me to complete “Internship report” perfectly. I am also grateful to Khandaker Ikram Ahmed, Senior Regional Manager of SME Business Division, Head Office, BRAC Bank Limited who has helped me to prepare my internship report by providing me various documents and information of BRAC Bank Limited which is the topic of my Internship Report. I am also grateful to Md. Motiur Rahman, Md. Zahid Ahmed, Prosanto Saha and all other officers and executives of Business Relationship and Support Department for their continued support during my internship period. I also want to give thanks to the CRO’s of the unit offices for providing me different information. Besides, I am also grateful to the authors, researchers, and articles writer who’s Books, Reports, Thesis papers and journals that have helped me to prepare my Internship Report successfully.

I am also thankful to my family members for their support and patience and for tolerating me during the preparation of this report.

Executive Summary



The main aim of this report is to provide analysis on the SME loan activities and process of BRAC Bank Limited and how they choose their clients or enterprises to avoid the default risks. Before going to the analysis, it is mandatory to know something about the organization, its core products that it offers to its customers; about the SME loan, its classifications and the whole of its process.

For this purpose, first of all, I made an overview of the organization, BRAC bank Limited, where I had completed my internship program. Here, I discussed about the bank's history of origination, its mission and vision, major Business Division and major products and services, management of the bank. SME is the next section where I gave my concentration. Here, I give a small introduction of SME Banking Division. Then I give detail of SME Division- Vision, Values, Strengths, Structure, Target market, Reasons of SME Banking, SME Network of BBL, and SME Product Detail of BBL.

Then I focused on the SME loan activities process of SME loan. After that I discuss about how SME Division secure their loan- enterprise selection criteria Entrepreneur Selection Criteria, Guarantor Selection Criteria, Types of Securities Taken against Loan, Monitoring, Disbursement amount and client base of SME.

In the next part I am talking about my experience in BRAC Bank. Then I discuss my Job details that I need to do in office. At the ending part of my report I got some findings from the analysis of the SME loan activities of BRAC Bank Limited. Finally, I conclude my report by giving some recommendations and conclusion.

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Chapter 1

INTRODUCTION

BRAC Bank Limited started their journey as a commercial bank in July 4, 2001 in Bangladesh. BRAC Bank Ltd established in Bangladesh under the Banking Companies Act, 1991 and incorporated as private limited company on May 20, 1999 under the Companies Act, 1994. BRAC Bank's vision is to be the market leader through providing all sorts of support to people in terms of promoting corporate and small entrepreneurs and individuals all over Bangladesh.

The Bank consists of major divisions named:

- 1) Corporate banking, 2) Retail banking, 3) Treasury, 4) Small & Medium Enterprise (SME).

1.2 Origin of the Report:

As a mandatory part of the BBA program, all the students of BRAC Business School of BRAC University have to undergo a three-month long internship program with an objective to gain practical knowledge about the business world. After this program, the students have to submit an internship report, which reflects their activities during the program. I joined in BRAC BANK Limited to undergo this internship program for the period of 3 months starting from 02 June to 31st August. In BBL I was assigned in SME Department in its head office. My organizational supervisor was Mr. Khandaker Ikram Ahmed, Senior Regional Manager SME Business Division. My project is **“BRAC Bank SME Financing: A new Era of Banking.”** This was assigned by my supervisor Ms. Syeda Shaharabanu Ahmed, Faculty of BRAC Business School, BRAC University.

1.3 Objective of the Report:

The objective of the report is categorized into two parts, one is board objectives and the other is specific objectives. These are given below:

Broad Objectives:

- ☑ To know SME loan lending activities.
- ☑ To study the reconciliation process.

Specific Objectives:

- ☑ To find out basic appraisal of SME loan.
- ☑ To know the enterprise selection criteria to provide SME loan.
- ☑ To know the terms and conditions of SME loans.
- ☑ To know the disbursement and recovery procedures of SME loans.
- ☑ To make some recommendations on the basis of relevant findings.

1.4 Scope of the Report:

Scope of the study is quite clear. SME Department is dealing with all types of Small and Medium loan activities in the bank, opportunities are there to learn other aspects of SME matters.

- ☑ Concept of SME and its impact in overall economy of Bangladesh
- ☑ Entrepreneurship development situation through SME banking
- ☑ Importance of SME banking in the context of Bangladesh
- ☑ Small entrepreneurs of rural –urban spectrum are enjoying the BRAC Bank loan facility without the presence of bank at rural area.
- ☑ Virtual banking concept through SME banking
- ☑ Other bank's performance in comparison to the SME banking at BBL

1.5 Methodology:

A. Sources of data:

1. Primary data sources:

- ☑ Interview with Customer relationship officers (CROs) and customers
- ☑ Direct observation.
- ☑ Discuss with Executives, officers

2. Secondary data sources:

- ☑ Annual report of 2002-2006 Operational manual
- ☑ Official Website
- ☑ BBL newsletters
- ☑ Research papers

B. Analysis of data:

Financial tool such as EIR has been calculated to describe the real cost that has been charged by BRAC bank. Trend analysis has been done to see the growth rate. 37 samples of clients have been taken to observe the repayment behavior of clients. Ratio analysis has been done to measure the performance of bank. Necessary percentages and averages have been calculated and the analyzed results have been described step by step.

1.6 Limitations:

I have faced the following barriers while preparing the report.

- ☑ Data from BRAC Bank Ltd., Head Office is highly confidential for the outside people and I had no authority to use the core banking software (Finacle).
- ☑ BRAC Bank Ltd. has very recently migrated from Millennium Banking System to Finacle. That's why all the employees are very busy with their works; sometimes I had to wait more than one week for a piece of information.
- ☑ I have to go under my day to day job responsibility which I am supposed to do. So, I could get few more time to spend in collecting data for preparing my internship report.

Chapter 2 BRAC BANK Limited at a Glance

2.1 Background of BRAC BANK Ltd:

BRAC Bank Limited started its business on the 4th of July 2001 with a clear vision to work as a catalyst for the vibrant yet unbanked SME sector in Bangladesh. BRAC Bank is a commercial bank scheduled bank extending full range of banking facilities as per the directives of Bangladesh bank. The Bank has positioned itself as a fourth generation Bank with a focus to meet diverse financial need a growing and developing economy. It is not just a place for transactions-BRAC Bank is a place where potentials are realized.

BRAC Bank Limited, with institutional shareholdings by BRAC, International Finance Corporation (IFC) and Shore cap International, has been the fastest growing Bank in 2004 and 2005. The Bank operates under a "double bottom line" agenda where profit and social responsibility go hand in hand as it strives towards a poverty-free, enlightened Bangladesh.

A fully operational Commercial Bank, BRAC Bank Limited focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which hitherto has remained largely untapped within the country. The management of the Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh.

2.2 Corporate Vision:

Building a profitable and socially responsible financial institution focused on Markets and Business with growth potential, thereby assisting BRAC and stakeholders build a just, enlightened, healthy, democratic and poverty free Bangladesh.

2.3 Corporate Mission:

- ❑ Sustained growth in 'Small & Medium Enterprise' sector
- ❑ Continuous low cost deposit growth with controlled growth in Retained Assets
- ❑ Corporate Assets to be funded through self-liability mobilization.
- ❑ Growth in Assets through Syndications and Investment in faster growing sectors
- ❑ Continuous endeavor to increase fee based income
- ❑ Keep our Debt Charges at 2% to maintain a steady profitable growth
- ❑ Achieve efficient synergies between the bank's Branches, SME Unit Offices and BRAC field offices for delivery of Remittance and Bank's other products and services
- ❑ Manage various lines of business in a fully controlled environment with no compromise on service quality
- ❑ Keep a diverse, far flung team fully motivated and driven towards materializing the bank's vision into reality

2.4 Corporate Values:

Our Strength emanates from our owner - BRAC. This means, we will hold the following values and will be guided by them as we do our jobs.

- ❑ Value the fact that we are a member of the BRAC family
- ❑ Creating an honest, open and enabling environment
- ❑ Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- ❑ Strive for profit & sound growth
- ❑ Work as a team to serve the best interest of our owners
- ❑ Relentless in pursuit of business innovation and improvement
- ❑ Value and respect people and make decisions based on merit
- ❑ Base recognition and reward on performance

2.5 Corporate Objectives:

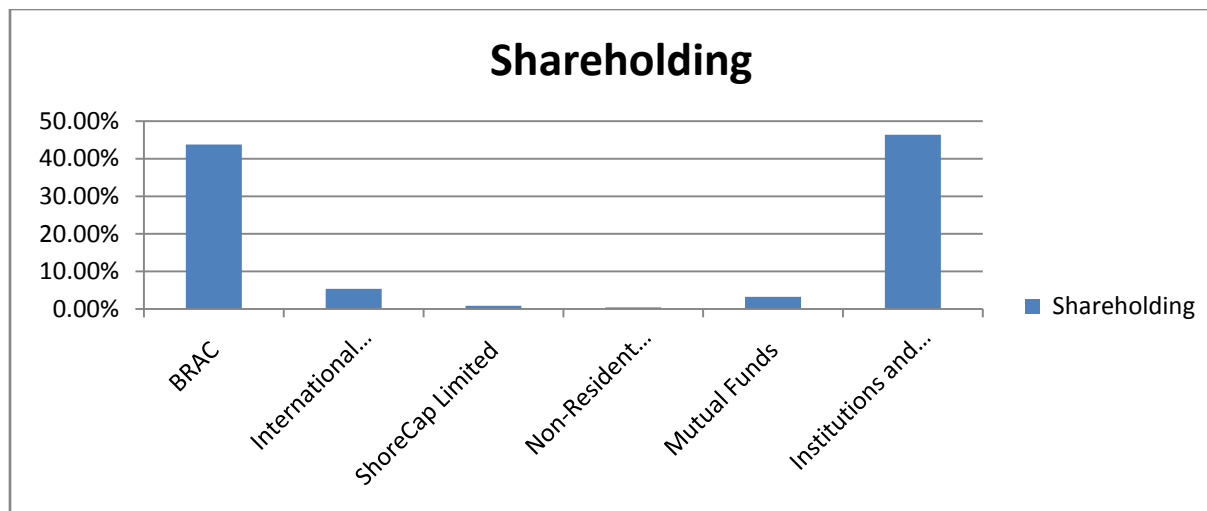
The objective of BRAC Bank Limited is specific and targeted to its vision and to position itself in the mindset of the people as a bank with difference. The objectives of BRAC Bank Limited are as follows:

- Building a strong customer focus and relationship based on integrity, superior service.
- To creating an honest, open and enabling environment
- To value and respect people and make decisions based on merit
- To strive for profit & sound growth
- To value the fact that they are a member of the BRAC family – committed to the creation of employment opportunities across Bangladesh.
- To work as a team to serve the best interest of our owners
- To base recognition and reward on performance
- To responsible, trustworthy and law-abiding in all that we do
- To finance the international trade both in import and export.
- To develop the standard of living of the limited income group by providing Consumer Credit.

2.6 Shareholding Structure:

Name of Shareholder	Shareholding
BRAC	43.77%
International Finance Corporation	5.36%
ShoreCap Limited	0.86%
Non-Resident Bangladeshi	0.43%
Mutual Funds	3.22%
Institutions and General Public	46.36%

e.g. Annual Report BRAC Bank(2010)



2.7 Management of BRAC Bank Limited:

Boards of directors are the sole authority to take decision about the affairs of the business. Now there are 5 directors in the management of the bank. All the directors have good academic background and have huge experience in business. **Sir Fazle Hasan Abed** is the Founder of the bank. The board of directors holds meetings on a regular basis. The current management teams and board of directors' name are given in the following table:

The Board of Directors of BRAC Bank Limited includes:

Mr. Muhammad A (Rumee) Ali	Chairman
Mr. Quazi Md. Shariful Ala	Director
Mr. Mark A.Coffey (Nominated By ShoreCap International Limited)	Director
Ms. Nihad Kabir	Director
Ms. Tamara Hasan Abed	Director
Mr. Shib Narayan Kairy	Director
Syed Mahbubur Rahman	Managing Director & CEO

e.g. Annual Report BRAC Bank(2010)

2.8 Division of BRAC Bank Ltd:

There are five different business units generating business BRAC BANK Limited:

- I. Small & Medium Enterprise (SME)
- II. Corporate Banking
- III. Retail Banking
- IV. Treasury
- V. Remittance Services

2.9 Products and services:

The bank has wide range of Product line to suit the need of the people of all strata. In addition to convention product both Asset and liability sides the Bank offers special credit products for its customer. These are:

Products and services

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- Consumer financing
- Lease Financing
- Small Loan
- Festival Loan
- Housing Loan
- Long-term & Short term loan financing
- Real Estate and Civil Constriction
- SME and Agro Based

Ancillary services

- Brokerage House service under the central depository with membership of bourse
- Foreign Currency Remittance

2.10 SWOT Analysis of BRAC BANK:

SWOT analysis is an important tool for evaluating the company's Strengths, Weaknesses, Opportunities and Threats. It helps the organization to identify how to evaluate its performance and scan the macro environment, which in turn would help organization to navigate in the turbulent ocean of competition.

Strengths:

Goodwill: BRAC bank LTD has already established a favorable reputation in the banking industry of the country particularly among the new comers. Within a period of 5 years, BBL has already established a firm footing in the banking sector having tremendous growth in the profits and deposits. All these have leaded them to earn a reputation in the banking field

Sponsors: BBL has been founded by a group of eminent entrepreneurs of the country having adequate financial strength. The sponsor directors belong to prominent resources persons of the country. The Board of Directors headed by its Chairman Mr. F. H. Abed. Therefore, BBL has a strong financial strength and it built upon a strong foundation.

Efficient Management: The top management of the bank is also major strength for the BBL has contributed heavily towards the growth and development of the bank. The top management officials have all worked in reputed banks and their years of banking experience, skills, expertise will continue to contribute towards further expansion of the bank. At BBL, the top management is the driving force and the think tank of the organization where policies are crafted and often cascaded down.

Facilities and equipment: BBL has sufficient physical facilities and equipments to provide better services to the customers. The bank has computerized and online banking operations under the software called Finacle banking operations. Counting machines in the teller counters have been installed for speedy service ant the cash counters. Computerized statements for the customers as well as for the internal use of the banks are also available.

Weaknesses:

Lack of advertising and promotion of SME loan: This is a major setback for BBL and one of its weakest areas. BBL's advertising and promotional activities are satisfactory but its SME loan is not advertised well. It does not expose its SME product to general public and are not in lime light. As a result large numbers of people are not aware of the existence of this bank.

NGO name (BRAC): BRAC is one of the largest NGO of the world and it is operating its activities in Bangladesh. BRAC bank is not a NGO bank but many people of them country consider it as a NGO bank like Grameen bank which is not correct.

Remuneration: The remuneration package for the entry and the mid level management is considerably low. The compensation package for BBL entry level positions is even lower than the contemporary banks. Under the existing low payment structure, it will be difficult to attract and retain higher educated employees in BBL. Especially CROs are not satisfied with compensation package provided to them.

Opportunities:

ATM: BBL always tries to provide excellent services to its customers. By considering this thing BBL provides ATM card to its customers and also provide available ATM booth in different locations in whole country.

Diversification: BBL can pursue a diversification strategy in expanding its current line of business. The management can consider options of starting merchant banking or diversify in to leasing and insurance. By expanding their business portfolio, BBL can reduce their business risk.

Product line proliferation: In this competitive environment BBL must expand its product line to enhance its sustainable competitive advantage.

Available Branches: With its proper and useful operational network, there is an opportunity for IFIC to further expand its branches in many remote and new location of the country which will deliver services to customer and earn a healthy profit for the bank.

Threats:

Competition: Competition is the threat of any business. At the age of modern business the competition is increasing. Every banks has an intention to provide better services compared to others for capturing the customers.

Multinational banks: The emergence of multinational banks and their rapid expansion poses a potential threat to the new growing private banks. Due to the booming energy sector, more foreign banks are expected to arrive in Bangladesh. Moreover, the already existing foreign bank such as Standard Chartered is now pursuing an aggressive branch expansion strategy. This bank is establishing more branches countrywide and already launched is SME operation. Since the foreign banks have tremendous financial strength, it will pose a threat to local banks.

Upcoming banks: The upcoming private local banks can also pose a threat to the existing private commercial banks like BBL. It is expected that in the next few years more local private banks may emerge. If that happens the intensity of competition will rise further and banks will have to develop strategies to compete against an on slaughter of foreign banks.

Contemporary banks: The contemporary banks of BBL such as Dhaka bank, prime bank and Dutch Bangla Ltd. are its major rivals. Prime bank and other banks are carrying out aggressive campaign to attract lucrative clients as well as big time depositors.

Leasing companies: Leasing companies like IDLC and others are also competitor for BRAC Bank.

Chapter 3

SME Banking Division

In our country the most valuable resource is our people. After independence the main goal of our country is to become economically stable country. Commercial Bank of our country is only working for larger industries and trading organizations and NGO or other Micro lenders are working here in the financial field, providing very small amount. But the small and medium entrepreneurs were ignored. This missing middle group is the small but striving entrepreneurs, who because of lack of fund cannot pursue their financial build up, as they have no property to provide as equity to the commercial banks. With this end in view-BRAC Bank was opened to serve these small but hard working entrepreneurs with double bottom line vision. As a socially responsible bank, BRAC Bank wants to see the release of grass-roots level to their economic height and also to make profit by serving the interest of missing middle groups. 50% of its total portfolio usually collected from urban areas, are channeled to support these entrepreneurs who in future will become the potential strength of our economy. BRAC Bank is the market leader in giving loans to Small and Medium Entrepreneurs.

The network of SME has already been established throughout Bangladesh. For SME loan operation, BRAC BANK LIMITED has in total 421 unit offices, 67 zonal office, 14 territory and 1800 Customer Relationship Officers. These CROs work for the Bank to converge clients for getting the SME loan. It has served 320,000 entrepreneurs, with BDT 144,330 million of SME loan through 503 customer touch points (SME Unit Offices, SME Sales and Service Centers, Krishi Branches, and Branches). BDT 37,400 million SME assets were fueled by BDT 8,970 million SME deposits and deposit from other sources in 2010. PAR (Portfolio at Risk) has been brought down slightly in 2010.

3.1 Vision:

Remain the leader in SME banking, respected locally and globally while focusing on people, profit, and planet.

Work for the missing middle

e.g. operation manual, SME BRAC Bank(2010)

3.2 Values - CRYSTAL

C stands for being **Creative**, Be a person of innovative ideas in solving issues, thinking different ideas to reach one destination; do new associations between existing ideas or concepts for the organization's overall growth.

R stands for being **Reliable**, Be worthy of reliance or trust at work so everyone could depend on you.

Y stands for remaining **Youthful**, Be a person of freshness and vibrant characteristic at work. Feel young at HEART and project enthusiasm during performing duties.

S stands for being **Strong**, Be a person of willing to move forward and apply conscious choice, willpower, discipline and passion at work.







T stands for being **Transparent**, Be transparent at work at all level both internally and externally. Show openness and honesty through communication to bring transparency

A stands for being **Accountable**, Be accountable for own actions and take responsibilities for the outcome of the actions; be responsible and answerable towards customers, organization, regulatory bodies as well as the society.

L stands for being **Loyal**, Be loyal to the organization by being compliant at work, taking ownership and create belongingness which will carry your brand as your pride.

e.g. operation manual, SME BRAC Bank(2010)

3.3 Strengths:

-  Brand image
-  Trained sales force
-  Good quality staff and service
-  Quality distribution network
-  Strong credit & collection framework
-  Superior technology and service

3.4 Structure:

The SME banking division of BRAC Bank is structured into following departments –

Small Business is organized into regions, territories, zones, and unit offices all throughout the country. Historically the department provided small loans to entrepreneurs. Now it is fully equipped to provide all kinds of products and services to small entrepreneurs. It is the biggest department of the division in terms of asset, deposit, and nationwide presence.

Medium Business works in Dhaka and Chittagong to cater medium size businesses. It is looked after by Senior Relationship Managers/Relationship Managers.

Product and Portfolio department looks after both lending and deposit product development, implementation, and review, training, and communication aspect of the division. It also manages the product support function (internal staff queries, pricing, and product collateral management). The department also has separate product focused sales teams (Large loans/trade finance/commercial vehicle finance).

Deposit Mobilization looks after the overall deposit portfolio of SME Banking. It undertakes all activities (Product modification, communication, training, pricing, and others) to bolster deposit growth. The department also has product focused sales team for liability product sales.

Monitoring and MIS looks after the processes of the division, control aspect of unit offices, management reports, communication with stakeholders (IFC/Board), and special initiatives.

Compliance looks after the Human Resources compliance, regulatory reporting/communication, and proactive risk management.

3.5 Target Market:

- Trading of grocery item
- Hardware
- Chemical products
- Sanitary ware
- Building materials (rod, cement, brick, paint, and others)
- Electrical and electronic items
- Imported foods (biscuits, cheese, juice, and such items)
- Light machinery
- Large tailoring business
- Weaving mills
- Bakery
- Printing house
- Feed mill
- Poultry
- Dairy farm
- Fisheries
- Manual/auto rice mill
- Boutiques and parlors
- Restaurant
- Distributor of FMCG products/others
- Fish wholesaler
- Food grain wholesaler
- Wood processing/saw mills
- Many more...

3.6 Reasons of SME Banking:

The main focus of BRAC Bank is to develop human and economic position of the country. Its function is not limited only to providing and recovering of loan. But also try to develop economy of a country. So reasons for this program from the viewpoint of BRAC Bank Ltd. are:

- ✔ **Support Small and Medium Enterprise:** The main aim of SME in our country is to support small and medium enterprise. In our country small and medium entrepreneurs do not have easy access to get loans from the commercial banks/ financial institutions. But BRAC Bank Ltd. Provides loans to such entrepreneur without any kind of mortgage.
- ✔ **Create Employment:** To create employment opportunities in the market. By providing loan to the small enterprises entrepreneur got success on their business who cannot start or expand their business because of lack of fund. When a business expands it require more workers.
- ✔ **Economic Development:** Economic development of a country largely depends on the small and medium sized enterprises. If the missing middle become successful than our country economically developed.
- ✔ **Profit Making:** SME program is a new dimensional banking system in the banking world. Most of the CROs are providing door-to-door services to the entrepreneurs. Entrepreneurs are satisfied by the service of the bank and making profit with guidance of the bank.
- ✔ **Encourage Manufacturing:** The focus of BRAC Bank Ltd. is to encourage manufacturing by the entrepreneurs who produce by purchasing various types of materials. CRO's try to educate them to produce material if possible because if they can produce in line of purchase profits will be high.

3.7 SME Network of BRAC Bank



e.g. operation manual, SME BRAC Bank(2010)

3.8 SME Product Details of BRAC Bank:

ANONNO RIN

A business loan scheme for the purpose of working capital finance and/or fixed assets purchase to the small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. all over Bangladesh through marketing and distribution offices (called unit offices) across the country. The loan, under this scheme, would be secured by hypothecation on the inventory, receivables, advance payments, plant & machineries, charge on immovable properties, third party personal guarantee, equitable/registered mortgage of landed property, full or partial cash cover (in the form of readily en cashable government bonds, mutual fund unit certificates and deposits/fixed deposits in our Bank or in other Banks if the entrepreneur(s)/owner(s) offers/agrees to offer)

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
Anonno	Loan without Mortgage	3 lac to 8 lac	24% p.a	18 – 60 years of age
	Discounted rates for Excellent Borrowers			Minimum 2 years experience in the same line of business
	Quick, quality banking throughout the country			Business must be going concern for more than a year

e.g. operation manual, SME BRAC Bank(2010)

APURBO RIN

A business loan scheme for the purpose of working capital finance and/or fixed assets purchase to the small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. all over Bangladesh through SME unit offices across the country. The loan, under this scheme, would be secured by hypothecation on the inventory, receivables, advance payments, plant & machineries, charge on immovable properties, third party personal guarantee, equitable/registered mortgage of landed property, full or partial cash cover (in the form of readily encashable government bonds, mutual fund unit certificates and deposits/fixed deposits in our Bank or in other Banks if the entrepreneur(s)/owner(s) offers/agrees to offer)

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
Apu rb o	Without mortgage for loan below 10 lac.	8 lac to 30 lac	17% p.a. at monthly rest for loans between 8.50 lac to 15 lac.	25 – 60 years of age
	Simple loan processing for expanding your business			Minimum 3 years of some sort of business activities
	Quick disbursement			Business must be a going concern for more than 3 years

e.g. operation manual, SME BRAC Bank(2010)

DIGOON RIN

DIGOON RIN is a loan facility for small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. spread all over Bangladesh through our unit offices across the country. The product offers terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase under Equated Monthly Installment loan facility or Single Installment Loan facility. To avail ‘Digoon Loan’ facility the enterprise has to give 50% cash security (Fixed deposited of BRAC Bank) of the loan amount.

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
Digoon	Double amount of loan on your deposit	5 lac to 30 lac	Equated Monthly Installment loan facility: 17 %	18 – 55 years of age
	Attractive return against the deposit			Must have at least 2 years of business experience
	Flexible repayment plan in monthly installment and single installments		Single Installment Loan facility: 18 %	Business must be a going concern for more than 2 years

e.g. operation manual, SME BRAC Bank(2010)

PROTHOMA RIN

“PROTHOMA RIN” is a loan facility for small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. which are operated by women entrepreneurs, spread all over Bangladesh through our unit offices across the country. The product offers terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase. Currently only a small percentage of our existing clients are women. This new loan product will help us to penetrate the women entrepreneurs who want to avail loan facility.

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
Prothoma	In case the tenant borrower cannot obtain trade license showing her name as owner of the business, loan can be sanctioned in the personal name of the borrower	3 lac to 10 lac	22% p.a. at monthly rest	18 – 55 years of age
	Discounted rates for excellent borrowers			Minimum two years of experience in the same line of business
	Repay the loan in the method and time period that suits you the best			Minimum of one year of continuous business history
	Borrower availed any loan in the name of his/her sister concern business loan may be approved if the loan is regularly repaid from the sister concern business			The business should be located surrounding the unit offices of BRAC bank across the country

e.g. operation manual, SME BRAC Bank(2010)

PATHSHALA RIN

The product offers term loan facilities for the purpose of fixed assets purchase under Equated Monthly Installment. The loan would be secured by hypothecation on the inventory, receivables, advance payments, equipments, furniture & fixtures, charge on immovable properties, equitable/registered mortgage of landed property, partial or full cash cover (in the form of readily encashable mutual fund unit certificates and deposits/fixed deposits in our Bank or in other Banks).

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
Pathshala	Without mortgage for loan below 10 lac	3 lac to 10 lac	24% p.a. at monthly rest for loan amounting 3 lac to 10 lac	The institution should be sole proprietorship, partnership, Private Limited Company, or Society
	Loan for fixed assets purchase & civil construction			
	Loan repayment can be spread up to 4 years		17% p.a. at monthly rest for loan amounting above 10 lac to 15 lac	The educational institute must be a profit making concern
	Minimum documentation			
	Monthly repayment plan		16% p.a. at monthly rest for loan amounting above 15 lac up to 30 lac	A small & medium educational institution that is in operation for minimum 3 years
	Quick disbursement			
	Flexible interest rate based on security			

e.g. operation manual, SME BRAC Bank(2010)

SUPPLIER FINANCE

Supplier Finance is a loan facility for the enlisted suppliers of various corporate houses. Under this product, respective Suppliers will get loan limit maximum 80% of their last 1(one) year average monthly bills or work orders of particular corporate house. The product offers terminating loan facilities for the purpose of working capital finance under Equated Monthly Installment loan facility or Revolving Loan facility with multiple drawdown options and Single Installment based repayment plan. To avail this loan facility; BRAC Bank, particular corporate house and the enlisted supplier of particular corporate house have to sign a tripartite agreement.

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
Supplier Finance	Equal monthly installment and revolving loan facility	3 lac to 30 lac	3 lac to 9.5 lac- 22% p.a at monthly rest	If you are an enlisted supplier of a corporate house with which BRAC Bank has a corporate tie- up
	1% of loan amount as the processing fee		10 lac to 15 lac - 17% p.a at monthly rest	Have 1 year continuous relationship with the purchasing firm
			Above 15 lac to 30 lac - 15% p.a at monthly rest	Have minimum 3 years of continuous operation

e.g. operation manual, SME BRAC Bank(2010)

AROGGO RIN

The main objective of launching AROGGO loan is to finance private clinics and diagnostic centers to further broaden our SME customer base. Through AROGGO loan, health centers will get the opportunity to upgrade their medical facilities or expand business. This will contribute to the overall enhancement of health facilities available in Bangladesh.

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
Aroggo	Loan without mortgage up to 8 lac	3 lac to 10 lac	3 lac to 8 lac – 20% p.a. at monthly rest	Doctors having 5 years of experience
	Easy loan processing			A profit making concern
	Loan repayment schedule is spread up to 3 years		Above 8 lac to 15 lac - 17% p.a at monthly rest	Institutions with at least 2 years in operation
	1% loan processing fee		Above 15 lac to 30 lac - 16% p.a at monthly rest	
	Flexible interest rate based on security			

e.g. operation manual, SME BRAC Bank(2010)

CASH SECURED LOAN

Cash Secured Loan is a loan facility for small and medium size trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. spread all over Bangladesh through our branches or unit offices across the country. The product offers terminating loan facilities for any purpose related to business. There are two types of loan facility in the product i.e. Secured Loan and Secured Overdraft. These facilities are fully secured by fixed deposit of BRAC Bank.

NAME	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE (Secured Loan)	INTEREST RATE & TENURE (Secur ed Overdraft)	ELIGIBILITY CRITERIA
Cash Secured Loan	3 lac to 30 lac	Type- A: Loan 100% of the face value of Fixed Deposit 3% p.a. spread over Fixed Deposit's interest rate	Type- D: Loan 95% of the face value of Fixed Deposit 3% p.a. Spread over Fixed Deposit's interest rate.	The entrepreneur must have minimum 6 (Six) months experience in the same line of business.
		Type –B: Loan 90% of the face value of Fixed Deposit 2.5% p.a. spread over Fixed Deposit's interest rate.	Type- E: Loan 80% of the face value of Fixed Deposit. 2% p.a. spread over Fixed Deposit's interest rate.	To be determined by Trade license (if available)
		Type-C: Loan 80% of the face value of Fixed Deposit 2% p.a. spread over Fixed Deposit's interest rate.		

e.g. operation manual, SME BRAC Bank(2010)

BIZNESS ACCOUNT

Bizness Account is an interest bearing account only for business Enterprise for SME and Retail Banking. This product has been set in a way to encourage small & medium entrepreneur to enter into the wide range of modern banking facilities of BRAC Bank Limited.

BBL SME Banking Products					
NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA	
BIZNESS Account	Smart Business Card	50, 000 withdrawing facility (per day) from ATM & 100, 000 from POS	4% interest on daily balance	Entrepreneurs aged between 18 to 60 years	
	24 hour Access to ATMs/ POS			Opening balance - BDT-10, 000.00	
	No Minimum Balance, No Ledger Fees, No hidden cost		Interest paid to account twice a year		Small and medium sized business entrepreneur of a sole proprietorship business
	No bar for using POS				
	Phone-Banking, Online Banking, SMS Banking, Internet Banking facility				

e.g. operation manual, SME BRAC Bank(2010)

Chapter 4 Loan Activities of SME Banking Division

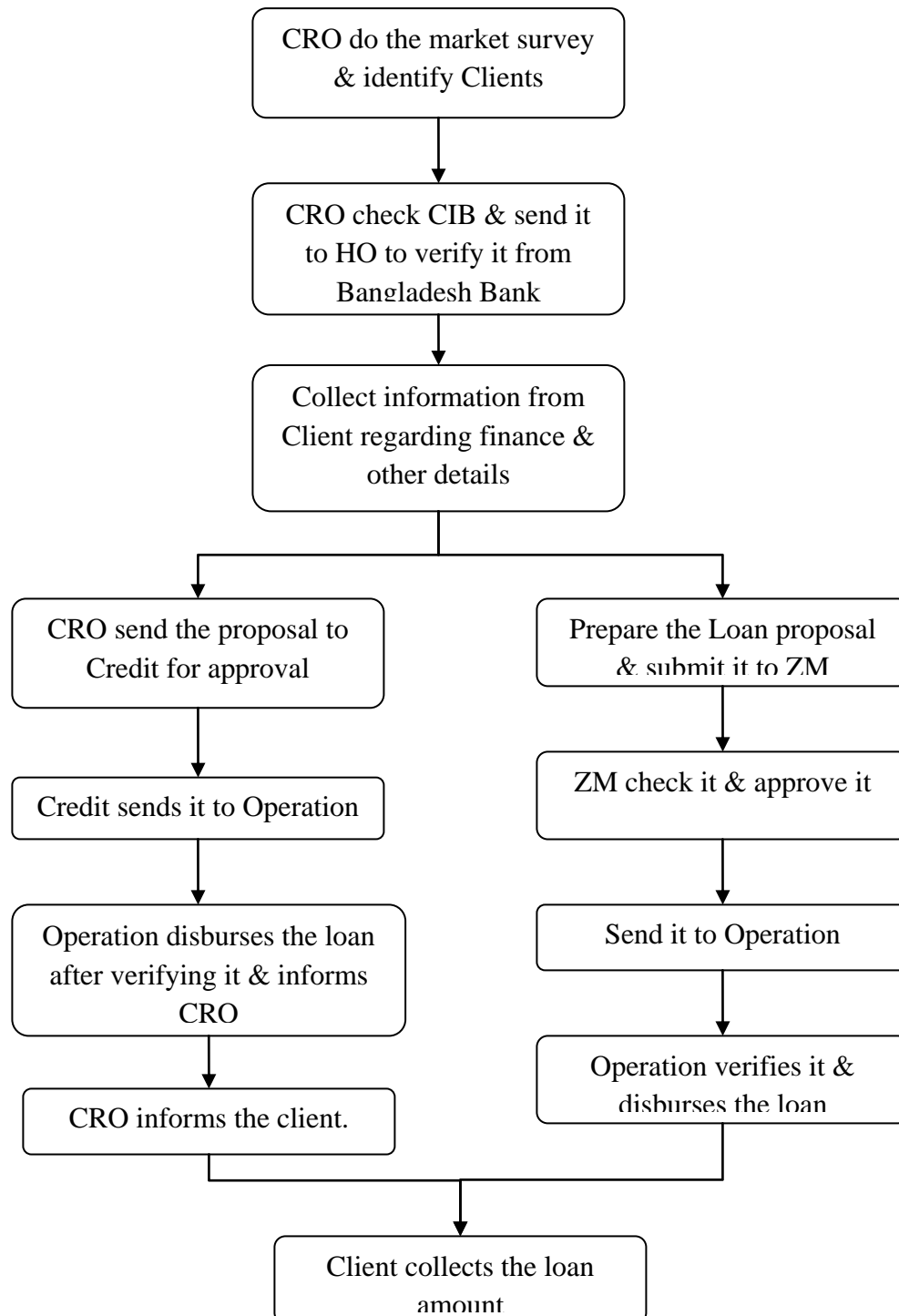
4.1 Procedure of BRAC bank SME loan:

Customer Relations Officer (CRO) helps a customer choose the scheme which best meets his financial requirements and fits his business size and nature. The CRO then collects all the requisite documents from the customer, consolidates the information, and after ensuring that all the required documentation are in place, he prepares the Loan Application Proposal (LAP) and passes it on to his Zonal Manager. The Zonal Manager visits the business, gives the file a final check and forwards it to the Credit Risk Management department of our bank.

The Credit Analyst in the SME Credit wing visits the business location and analyzes the loan proposal by making an assessment of the customer's ability to repay based on his business profile and matching customer's proposal with his credit assessment to determine whether the customer can be financed. Our credit officers are always proactive in identifying and managing any risks/gaps in the credit file and communicating them to the respective CRO's so they can correct the discrepancies and provide the required information. In areas where there is no centralized credit assessment department, the bank has audit team that visits the business location and assesses the file.

The Origination department verifies the documentation and opens the loan accounts of our customers. In addition, they help obtain the CIB of the customer, a mandatory requirement of Bangladesh Bank. The loan is then disbursed to the customer. SME Business and CRM jointly manage the collection responsibility across the country based on overdue aging. SME Repayment Unit performs the functions of loan repayment and the Closing Unit does the loan closure. The CRO obtains the deposit slip from the customers for the monthly installments; he sends a mobile text to Head Office for realization of the installment. The slips are collected at the repayment unit for reconciliation. As the loan matures, the closing and clearing units handle the necessary paperwork and forward the clearance certificate and redemption authority of mortgage property to the respective CRO/ZM, who then hand them over to our customer.

4.2 Process Flow:



e.g. operation manual, SME BRAC Bank(2010)

4.3 Enterprise Selection Criteria:

The success of SME will largely depend on the selection of a business and man behind it. In terms of the business (Enterprise), the following attributes should be sought:

- ❑ **Business Age:** The age of business must be one year. If the business is more older than they got more preference and facility.
- ❑ **Registration:** The business should be legally registered, i.e., valid trade license, income tax or VAT registration, wherever applicable.
- ❑ **Environment friendly:** The business should be environment friendly, no narcotics or tobacco business.
- ❑ **Define Market:** The business must have a defined market with a clear potential growth
- ❑ **Location of business:** The business must be located ideally close to the market and the source of its raw materials/suppliers. It should have access to all the utilities, skilled manpower's that are required
- ❑ **Riskiness of business:** Any risk assessed by the management in turn will become a credit risk for the bank. So effort should make to understand the risk faced by the business.

4.4 Entrepreneur Selection Criteria:

In order to understand the capability of the management behind the business, the following should be assessed:

- 1.** The entrepreneur should be physically able and in good health, preferably between the age of 25-50. If he/she is an elderly person closer to 50, it should be seen what the succession process will be and whether it is clearly defined or not
- 2.** The entrepreneur must have the necessary technical skill to run the business, i.e. academic background or vocational training, relevant work experience in another institution or years of experience in this line of business
- 3.** The entrepreneur must have an acceptable social standing in the community (People should speak highly of him), he should possess a high level of integrity (Does not cheat anyone, generally helps people), and morally sound (Participates in community building)
- 4.** The entrepreneur must possess a high level of enthusiasm and should demonstrate that he is in control of his business (Confidently replies to all queries) and has the ability to take up new and fresh challenges to take the business forward
- 5.** Suppliers or creditors should corroborate that he pays on time and is general in nature
- 6.** Clear-cut indication of source of income and reasonable ability to save.

4.5 Guarantor Selection Criteria:











Equally important is the selection of a guarantor. The same attribute applicable for an entrepreneur is applicable to a guarantor. In addition he should possess the followings:

- 1.** The guarantor must have the ability to repay the entire loan and is economically solvent (Check his net worth)
- 2.** The guarantor should be aware about all the aspect of SEDF loan and his responsibility
- 3.** Govt. and semi-govt. officials can be selected as a Guarantor such as schoolteacher, college teacher, doctor etc
- 4.** Police, BDR and Army persons, political leaders and workers, and Imam of mosque cannot be selected as a guarantor
- 5.** The guarantor should know the entrepreneur reasonable well and should preferably live in the same community

4.6 Type of Securities taken against Loan:

The following listed securities may be obtained from borrower against loan to enterprises, either individually or in a combination.

It is really up to the bank what they would like to accept as security from the borrower as not all the securities stated below are suitable:

-  Mortgage of loan and other immovable property with power of attorney to sell
-  Lien of Fixed Deposits receipts with banks and other non-banking financial institutions, lined, these have to confirm by the issuer
-  Lien of Pratirakshay sanchay patra, Bangladesh sanchay patra, ICB unit certificates and wage earner development bond, all considered Quasi or Near cash items
-  Lien of shares quoted in the stock exchange (This is rarely accepted)
-  Pledge of goods (Banks are akin to stay away from such securities now a days)
-  Hypothecation of Goods, Book Debt & Receivables, Plant & Machineries
-  Charge on fixed assets of a manufacturing enterprise
-  Lien of cheque, Drafts and order
-  Lien of work orders, payment to be routed through the bank and confirmed by the issuer
-  Shipping documents of imported goods

4.7 Monitoring:

Monitoring is a system by which a bank can keep track of its clients and their operations. So monitoring is an essential task for a CRO to know the borrowers activities after the loan disbursement. This also facilitates the buildup of an information base for future reference.

Importance of Monitoring:

Through monitoring a CRO can see whether the enterprise invested the sanctioned amount in the pre-specified area of his business, how well the business is running, the attitude of the entrepreneur, cash credit sales and purchase, inventory position, work in process and finished goods etc, This information will help the CRO/BRAC Bank to recover the loan accruing to the schedule and to take the necessary decisions for repeat loans. Moreover, monitoring will also help to reduce delinquency. Constant visit over the client /borrower ensures fidelity between the bank and the borrower and tends to foster a rapport between them.

Area of Monitoring:

Business Condition

The most important task of the CRO to monitor the business frequently, it will help him to understand whether the business is running well or not, and accordingly advice the borrower, whenever necessary. The frequency of monitoring should be at least once month if all things are in order.

Production

The CRO will monitor the production activities of the business and if there is any problem in the production process, the CRO will try to help the entrepreneur to solve the problem. On the other hand the CRO can also stop the misuse of the loan other than for the purpose for which the loan was disbursed.

Sales

Monitoring sales proceed is another important task of the CRO it will help him to forecast the monthly sales revenue, credit sales etc. which will ensure the recovery of the monthly loan repayments from the enterprise as well as to take necessary steps for future loans.

Investment

It is very important to ensure that the entire loan has been invested in the manner invented. If the money is utilized in other areas, then it may not be possible to recover the loan.

4.8 Disbursement amount & client base of SME Banking:

BRAC Bank's SME banking is continuing its journey of serving the SMEs, as can be observed from the tremendous growth in client base and from the disbursement amount.

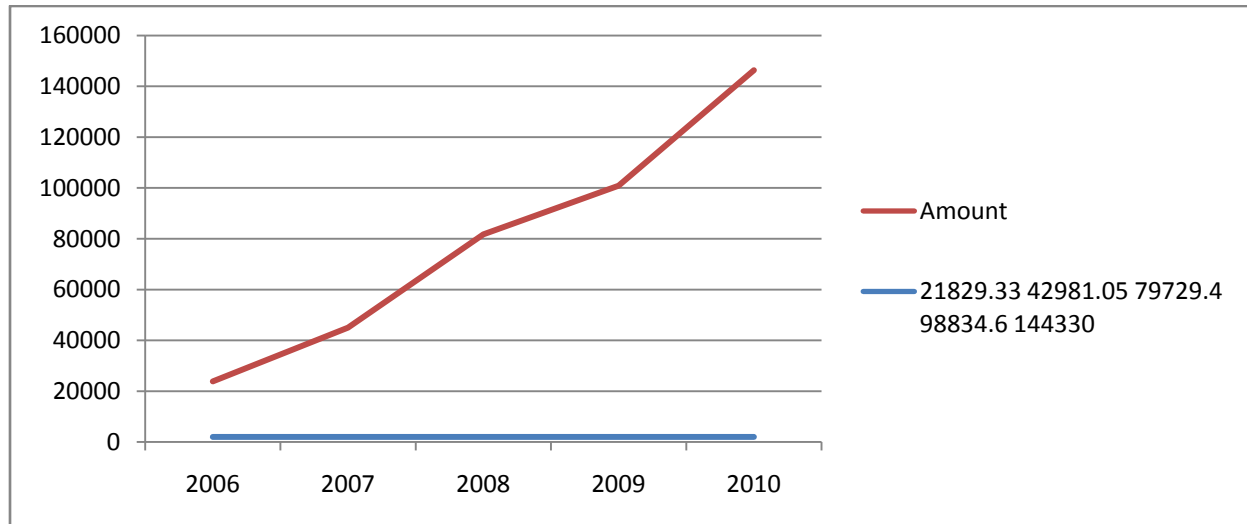
Disbursement Amount of SME Banking in million BDT (Cumulative)	
Year	Amount
2006	21829.33
2007	42981.05
2008	79729.4
2009	98834.6
2010	144330

e.g. Annual Report BRAC Bank(2010)

Number of SME loan disbursement (Cumulative)	
Year	No of loan
2006	14482
2007	30130
2008	59998
2009	113009
2010	320000

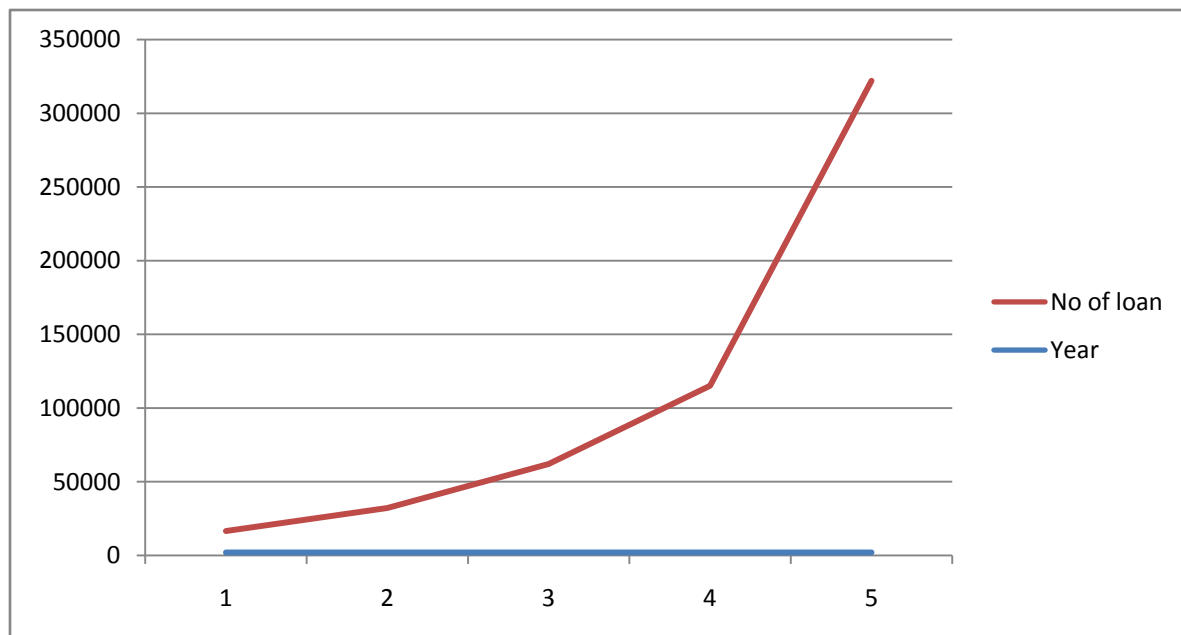
e.g. Annual Report BRAC Bank(2010)

Disbursement Amount of SME Banking in million BDT (Cumulative):



e.g. Annual Report BRAC Bank(2010)

Number of SME loan disbursement (Cumulative):



e.g. Annual Report BRAC Bank(2010)

Chapter 5

Internship Experience

I have completed my internship program from BRAC Bank Limited, Head office. I have learned lots of practical things which will be beneficial for future life if I work in SME sector. Since I was an intern therefore I gathered some experience in my internship period about the SME banking of BRAC Bank Limited. During my internship program at BRAC Bank Limited, Head office I worked mainly in the SME Banking section but with this short time of period I tried my best to work. I have got lot of practical experiences from there. BRAC bank is the pioneer of SME loan. It has introduced it in Bangladesh. The main thing is that BRAC bank is the market leader in this sector. 64% of its portfolio consists of SME lending. When I have worked here, I found that BRAC bank has introduced a new concept in SME lending. I have learnt how BRAC bank sanctions SME loan.

BRAC bank sanctions SME loan through their unit office not through their branch. Here borrower does not need to apply for loan rather CRO of BRAC bank finds the prospective entrepreneurs and the convince them to take loan. Unit office of BRAC bank cannot take deposit but can sanction loan. Though BRAC bank tells their clients that the interest rate of loan is 17%-18.8% but practically they charge 22%-24%.

From here I have gathered knowledge about SME lending procedure. The procedure starts from field level as CRO finds the potential clients by analyzing their business and financial position and the credit risk. Then it is analyzed by zonal manager as well as territory manager. Last of all it reaches to head office for final approval. From here I have learnt that who become eligible for getting SME loan. BRAC bank has used Finacle software to record data and closes their loan. It has used intranet to close loan. Employees of SME closing department will close loan when a loan turns out to be ended. I have checked borrower file that contains every detail of borrower loan information.

My Job Description

As an intern I had to do different types of works that are given below

My working hour starts at 10 am in the morning as banking hour starts and which ends normally in the 6.00 pm or more. During this time I had to do the following works.

- ☑ Follow up the document deficiency of ROC files of Rajshahi Region.
- ☑ Follow up the quarries of CRM files of Rajshahi Region.
- ☑ Communicating with Territory Officer, Zonal manager and Customer Relationship officer.
- ☑ Working in different project given by Regional Manager.
- ☑ Make Daily Top up sheet and report to the Regional Manager.

Every day I got document deficiency status of Regional Operation Centre and Credit Risk Management department in excel files. From those Excel files I need to communicate with customer relationship officer and confirm that they sent the rest document or not. If they do not send the documents I need to take an expected date when they will send the documents.

Chapter 6

Findings

In fact no businessman could think ever before that they could take loan so easily, without any collateral and without going to bank. But BRAC Bank has made this improbable process so successfully through SME banking. Now potential entrepreneurs who have lack of money but have potentials to do business can take loan from BRAC bank.

For this reason BRAK bank has charged a high rate of interest. As a result BRAC bank has been earning a high rate of interest and its profit has been growing sharply over the years. Micro lenders are working here in the financial field, providing very small amount and on the other hand regular commercial banks have been providing bigger amount of loans to larger industries and trading organizations. But the small medium entrepreneurs were over looked. This missing middle group is the small but striving entrepreneurs, who because of lack of fund cannot pursue their financial uplift, as they have no property to provide as equity to the commercial banks. With this end in view-BRAC Bank was opened to serve these small but hard working entrepreneurs with double bottom line vision.

However from the analysis of SME financing I can make the following findings:

- ☑ CRO's are not getting enough time to monitor of loan utilizing. Every CRO has to fill up the individual target which is given by the head office.
- ☑ The SME head office collects all information and sends the CIB form to Bangladesh Bank for clearance. Bangladesh Bank returns this CIB form to the respective SME head office by requiring long time ranging 10-12 days. It kills time.
- ☑ The respective unit office sanctions loan to the client if it ranges between BDT 2 to 5 lacs, and then sends the sanction letter including all necessary charge documents to the Regional Operations Centre (ROC) for disbursing the loan. If the loan amount is higher than BDT 5 lacs, only the SME head office has the authority to sanction.

- CRO's are the key indicator of SME banking division. But their training facilities are limited and they are not satisfied about their remuneration.
- Age have a significant impact on SME loan repayment. Young entrepreneurs have higher rate of default. On the other hand middle aged and experienced entrepreneurs are very loyal and they can make proper and timely repayment of their loans. And that's why most of the SME loan borrowers age ranges from 30 to 40.
- Experienced entrepreneurs run their business so tactfully, identify the exact time what is their pick time of sales and when they need fund. They take the loan in the pick season when they have excess demand but short of capital. Then they ensures the best use of the loan and make the dully installments. So their recovery rate is good.
- Education does not have any direct relationship for disbursing SME loan. In fact, Most of the entrepreneurs of retail and whole business (small or medium in size) are not highly educated.

Chapter 7

Recommendation

Considering all the findings and analyzing all the data, the following recommendations are made, which will benefit both BBL and its customers:

- SME head office sanction the loan by obtaining CIB form from Bangladesh Bank. SME head office should try to collect CIB form with shortest possible time from Bangladesh Bank.
- Train the Customer Relationship officers more comprehensively and realistically so that customers may not face any trouble while getting and repaying the loan. Make continuous performance evaluation of the CROs.
- The CROs should give higher remuneration.
- The bank should effectively monitor the loan utilization of borrower.
- Analyze customers' behavior that what type of customer makes default and stop giving them SME loan.
- SME unit office waits for closing confirmation from head office. Because they cannot disburse the repeat loan until getting the closing confirmation from head office. So head office should give closing confirmation with shortest possible time.

Chapter 8

Conclusion

BRAC Bank is a way ahead in terms of its business, strength, vision, management, services. It works in the most advance way possible in all their activities that make it easy for them to achieve their desired goal with a less effort. BRAC bank Limited promotes broad-based participation in the Bangladesh economy through the provision of high quality and modern banking services. SME loan is one of such quality product through which they offer the small and mediocre entrepreneurs a quality banking services and earn the maximum profit as well. SME business of BBL has expanding dramatically which creates a large employment opportunity for our country. So BRAC Bank is playing a great role in the developing economical condition of our country.

Chapter 9

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